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The American Economic Review

VOL. XI

DECEMBER, 1921

No. 4

THE FAILURE OF THE MERCHANT MARINE ACT OF 1920

At an expense of approximately four billion dollars the United States now has a sea-going steam merchant fleet second only to Great Britain's and three times as great as that of France or Japan which stand third and fourth on the list.¹ In 1914 our flag flew over only 725,000 gross tons of steamers registered for foreign trade,² fully one half of which was engaged in essentially coastwise services to the Gulf and Caribbean or between Atlantic and Pacific ports, whereas on July 1, 1921, 10.6 million tons were so documented.³ Having become possessed of a large merchant fleet, it was generally recognized after the armistice that something must be done to keep it. The inevitable and lengthy hearings were held, and a Merchant Marine act of thirty-nine sections was finally enacted by Congress and approved by the President on June 5, 1920.⁴

In outlining the purpose of the new legislation, the preamble states "That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval and military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States; and it is hereby declared to be the policy of the United States to do whatever may be necessary to develop and encourage the maintenance of such a marine." More specifically the act proposes to aid our shipping (1) by restoring the policy of private ownership and operation temporarily abandoned by the war (Section 5); (2) by a loan fund to give financial assistance in the building of approved types of ships (Section 11); (3) by partial exemption from excess and war profits taxes of approved types of vessels built in American yards (Section 23); (4) by (implied) mail subsidies (Section 24); (5) by limiting special joint rail and water rates to American ships (Section 28);

¹ *Lloyd's Register*, June 30, 1920.

² *Annual Report of Commissioner of Navigation*, 1920.

³ *American Documented Sea-Going Merchant Vessels 500 Gross Tons and Over, July 1, 1921*, pp. 41, 53.

⁴ *Public Statutes*, No. 261, 66th Congress (H. R. 10,378).

(6) by making ship mortgages prior to maritime liens; and (7) by discriminating tonnage and customs duties, conditioned upon the abrogation of existing commercial treaties (Section 34).

The act has now been in force for more than a year, and performance can be placed against purpose and certain suggestions may be offered. No attempt will be made to treat many minor features of the long act or the parts, such as Section 6⁵ on which an adequate judgment can not yet be passed.

The disposal of our war-tonnage.

Our merchant marine is still predominately government owned. On July 1, 1921, the Shipping Board possessed 7.2 million gross tons of steel ships (the wooden tonnage has perhaps been finally disposed of) out of a total of 11.5 million, or 64 per cent.

Some critics blame the Board for failure to sell to American citizens 7.2 million gross tons of ships within one or two years. A fair-minded observer must admit that private companies could not possibly have absorbed so much tonnage in such a brief time. On the other hand, it is equally evident that many more ships might have been sold, and a summary of the various schemes adopted shows the indecision of the Board, which even Section 5 of the Merchant Marine act has been unable to overcome.

The first sales of government owned steel ships were announced on June 17, 1919, the prices ranging from \$210 to \$225 a deadweight ton, on terms of 25 per cent cash, 7½ per cent in six months, 7½ per cent in twelve months, and the remaining 60 per cent in installments over four years.⁶ The prices were at least \$10 to \$25 a ton above the average cost to the government, were \$30 to \$50 over the reproduction costs in American yards, and were around \$75 above what similar tonnage was bringing in Great Britain. The Board asked too much to attract the established companies and the initial payment of one half to three quarters of a million dollars was almost prohibitive for new organizations. On February 10, 1920, the Board allowed a 10 per cent deduction for ships one year old, an additional one per cent for each additional year of a vessel's life for the following five years, and 5 per cent each year thereafter, by which the price of one-year-old boats was reduced to \$180-\$203 a ton, and two-year-old boats to \$178-\$200 a ton, etc.⁷ Two weeks later (February 25), a new scheme, which was really a bare boat charter with option to purchase, was adopted. The terms of sale were 2½ per cent cash and payments at the rate of

⁵ This section provides for the establishment of necessary services.

⁶ *New York Times*, June 17, 1919.

⁷ *Journal of Commerce*, February 10, 1920.

\$8.30 a deadweight ton a month until 50 per cent of the total was paid, the remainder to be in equal installments within five years of the date of sale.⁸ The low initial payment and the opportunity to meet the various installments from earnings were expected to act as an inducement to buyers. Sales were stimulated, but the scheme was weak in that the decline in rates, which had already begun, soon made it impossible to earn the monthly payments. This situation was recognized a few weeks later (April 1) and the rate was reduced to \$5 a ton a month.⁹ Less than a month later (April 27) another plan was tentatively put forward, by which payments were to be 10 per cent in cash, 5 per cent every six months for two years, and the remainder in equal semi-annual installments over a period of 10 or 12 years.¹⁰ On May 18, an announcement was made that sales would be temporarily suspended, pending the drawing up of a new form of sale and a revision of the agreements under which private companies were operating Shipping Board tonnage. The announcement was unnecessary, as the shipping depression was proving an automatic stop to sales. In less than a year the terms of sale were radically changed five times, a procedure calculated to reduce sales to a minimum, quite apart from the question of price.

Section 5 was designed to give courage to the Board; Congress directed it to sell the war tonnage "as soon as practicable, consistent with good business methods and the objects and purposes to be attained by this act." Two months later (August 17) the basic prices were reduced to \$160-\$175 per deadweight ton for coal-burning vessels and to \$175-\$185 a ton for oil-burners.¹¹ Three days later (August 20) a 10 per cent discount for cash was allowed.¹² But the Board was behind the market. A week before the Skinner and Eddy Corporation, which built more merchant tonnage than any other American yard during our participation in the war, had sold two of its 10,400 deadweight ton steamers, exactly similar to many it had built for the Board, for \$144 a deadweight ton.¹³

The reductions were of no avail. By the middle of the summer charter rates had slumped 25 to 50 per cent from those at the beginning of the year. The companies which had bought tonnage under the earlier schemes were complaining that later concessions acted as an insurmountable handicap to them, and that anyway they could not meet their payments. New companies were not attracted into a business of

⁸ *Journal of Commerce*, February 25, 1920.

⁹ *Journal of Commerce*, April 1, 1920.

¹⁰ *Journal of Commerce*, April 27, 1920.

¹¹ *New York Times*, August 17, 1920.

¹² *New York Times*, August 20, 1920.

¹³ *Journal of Commerce*, August 10, 1920.

rapidly dwindling profits. The Board was left with its tonnage.

It is impossible to determine exactly how many government ships have been sold *permanently*. The Board's list of sales cannot be trusted because it is made up almost entirely of promises to purchase. The payment of so much a deadweight ton a month really amounted to a bare boat charter and when earnings fell off, the ships naturally were turned back to the Board. Many new companies have lately gone bankrupt and their vessels have reverted to the government. There is no way to tell whether the payments on vessels "sold" will ever be met. In perhaps a dozen cases the entire price was paid in cash. In general the sales were on paper; at one time it was announced that one hundred steel vessels had been sold to one corporation, a transaction that only the federal reserve system could handle readily as the amount involved was close to \$100,000,000.

While admitting that all the war-built and acquired tonnage could not have been disposed of within one year or within three years, the conclusion is forced upon one that the Shipping Board frittered away its best opportunities and that even the moral support of Section 5 of the Merchant Marine act was not sufficient to give it courage. It is perhaps as well. Only the present severe depression is likely to make the Board write off an equitable part of the high construction costs as a war loss which the country as a whole should bear and not a few adventurous and well-meaning companies.

The construction loan fund.

Section 11 provides "That during a period of five years from the enactment of this act the board may annually set aside out of the revenues from sales and operations a sum not exceeding \$25,000,000, to be known as its construction loan fund, to be used in aid of the construction of vessels of the best and most efficient type for the establishment and maintenance of service on steamship lines deemed desirable and necessary by the board. The board shall use such funds to the extent required upon such terms as the board may prescribe to aid persons, citizens of the United States, in the construction by them in private shipyards in the United States of the foregoing class of vessels. No aid shall be for a greater sum than two thirds of the cost of the vessel or vessels to be constructed." This section is inoperative because the Shipping Board is losing money and is likely to for the next few years. A deficit of \$513,000,000 was shown in the Board's balance sheet at the end of the fiscal year 1920.¹⁴ Later figures show a loss of \$18,925,000 from direct operations between March 1 and September 23, 1920,

¹⁴ *Fourth Annual Report of the U. S. Shipping Board*, 1920, p. 261.

without considering depreciation and overhead,¹⁵ and the recently appointed chairman has stated that current operating losses are approximately \$20,000,000 a month. The care of the idle ships alone is costing \$550,000 a month. With a world surplus of tonnage, which was plainly to be foreseen at the time of the passage of the act, few companies will be in the market for ships and the Board will have no net profits to set aside.

Exemption from excess profits taxes.

Section 23 provides that the net earnings from ships operated under the American flag may be allowed as a deduction for the purpose of ascertaining net income for taxation purposes, provided the amount so deducted be invested in approved types of ships built in American yards, two thirds of the cost of the vessel to be paid for out of the ordinary funds or capital of the company. This section has given aid not so much to shipping as to large oil companies. Up to January 1, 1921, thirty-nine vessels, totalling 453,000 deadweight tons and representing an investment of over \$75,000,000 had come under the provisions of the act. Of the total, thirty-one of 376,000 tons were tankers ordered by the large oil companies *before* the act was approved.¹⁶ So far as can be determined not a vessel has been exempted which was ordered *after* the provision became effective. The result has been that the Treasury has lost approximately \$25,000,000 and that certain companies which had already decided to spend that amount plus any taxes they might have had to pay, saved not only that amount but the taxes likewise. Little aid will be given by this section to shipping or shipbuilding in the near future; the earnings from ship operation are likely to be in red figures.

Mail subsidies.

Section 24 provides "That all mails of the United States shipped or carried on vessels shall, if practicable, be shipped or carried on American built vessels documented under the laws of the United States. . . . The Board and the Postmaster General, in aid of the development of a merchant marine adequate to provide for the maintenance and expansion of the foreign and coastwise trade of the United States and of a satisfactory postal service in connection therewith, shall from time to time determine the just and reasonable rate to be paid for such service and the Postmaster General is hereby authorized to enter into contracts within the limits of appropriations made therefor by Congress."

¹⁵ *Journal of Commerce*, January 19, 1921.

¹⁶ E. S. Gregg, "The Crux of our Shipping Problem," *Journal of Political Economy*, June, 1921, and "Vicissitudes in the Shipping Trade 1870-1920," *Quarterly Journal of Economics*, August, 1921.

The bulk of our overseas mail is now carried under the provision of the act of 1872, which allows 5 cents per ounce for first class matter and 8 cents per pound for other classes, regardless of distance. Foreign vessels receive approximately 35 cents and $4\frac{1}{2}$ cents a pound (4 francs, and 50 centimes per kilogram) respectively for letters and for other mail. Four steamship companies, three to the West Indies and one to Australia, are operating by contract under the act of 1891, the rate of compensation being based upon mileage and class of vessel, the volume of mail not affecting the rate. The provisions of both of these acts are superseded by Section 24 of the Merchant Marine act and if the section is interpreted liberally by the Shipping Board and the Postmaster General, and if Congress makes the necessary appropriations, substantial aid may be given to certain lines. As yet no contract has been made under the act and Congress will have to decide the old vexing question: to what extent are the advantages of having mail carried in American ships worth subsidies?

The question of joint rail and water rates.

Section 28 provides that a common carrier can not make a special joint rail and water export rate except for American vessels. There are special export rates on grain, iron and steel products, differentials in favor of Boston, as compared with New York, and a complex rate structure to aid Southern and Pacific ports. It should be pointed out that any limiting of the differential enjoyed by various ports would not only not greatly aid shipping but would actually be destructive of foreign trade. Further, it is probable that foreign shipping companies will always cut their rates to enable them to get cargo; in the past they have always been ready to meet any reduction. And in the third place, the American steamship services, private and Shipping Board, are not adequate, nor do they, particularly the latter, give the efficient and certain services that are absolutely essential to successful foreign trade.

The Interstate Commerce Commission granted a ninety-day extension before the clause went into effect. On July 25, the chairman of the Board asked the Commission to certify a further extension to January 1, 1921, which was granted¹⁷ and also an indefinite extension on December 10.¹⁸ While Germany's experience, especially with the German Levant Line, has demonstrated that special joint rail and water rates can materially aid shipping, the situation in the United States is basically different. It would seem very unwise to try to enforce the section today.

¹⁷ *New York Times*, July 25, 1920.

¹⁸ A letter from the secretary of the Board in answer to an inquiry.

Federal ship mortgages legislation.

Investors of the United States have never been greatly attracted by shipping securities or bonds secured by mortgages on ocean-going vessels. The reasons are clear. We have had little foreign shipping during the last fifty years, and sea-going ships being subject to the legal systems of the foreign countries they touch are liable to large indebtedness for supplies and repairs acquired abroad. The maritime liens, which protect the furnisher of supplies or services abroad, have been and are superior to a mortgage on the ship. Further, ship mortgages in this country were formerly regulated by state laws, which in many cases were conflicting. Since a mortgage is not a maritime contract and since federal courts sitting in admiralty have no jurisdiction over non-maritime matters, the mortgage was left to the varying procedures of the different states for foreclosure.

But while ship mortgage bonds have been without standing in the eastern money markets, they have prestige in the Great Lakes region. Twenty years of successful experience have convinced investors in Cleveland, Detroit, and other centers of the fundamental soundness of maritime investments for inland waters. In this region the mortgage deeds of trust have been so drawn that adequate safeguards are set up against the moral hazards involved.

Section 29, designated the Ship Mortgage act, purposes by legislation to accomplish for deep-sea mortgages what the Great Lakes plan has been able to do through laborious experiments for our inland ship securities. Heretofore, repair yards and ship-supply men were protected by a maritime lien which gave them precedence over general creditors, and this is still true if the vessel contracts debts in foreign ports. A repair yard had also the right to detain a vessel upon which repairs had been made under a promissory lien until payment of the bill for repairs. The order of priority under the Merchant Marine act is (1) "preferred liens"; (2) other maritime liens, if incurred before recording, etc. of a mortgage; (3) "preferred mortgages"; and (4) all other mortgages. The "preferred liens" are for (1) torts, as distinguished from liens growing out of contracts, i.e. as for collision claims; (2) wages of stevedores, if directly employed by the vessel; (3) wages of the crew; (4) general average; and (5) salvage. All other liens arising out of contracts are inferior to these "preferred liens." The "preferred mortgages" are those made in accordance with the provisions of the act.

While the Ship Mortgage act was designed mainly to aid the Shipping Board in the disposal of its tonnage, it is capable of wider use. Court interpretations will doubtless change the meaning of some sections, but it is generally agreed that the ship mortgage is now well

protected. The effects of the act to date are not noticeable, but should become increasingly important. Now that tonnage values are fairly stable, the greatest drawback to ship mortgage securities is that they are not well known by the investing public. If private capital and initiative are to take over the government owned tonnage, (and our shipping problem can never be solved satisfactorily unless they do) the present ship mortgage legislation should make easier the financing of the undertaking.

Discriminating tonnage and customs duties.

The United States took the first step away from the system of discriminating duties on ships and products in a commercial convention framed with Great Britain some months after the Treaty of Ghent in 1815. In 1818, under the provisions of the Navigation act of the preceding year, discriminating duties on trade with the Netherlands, Prussia, Hamburg, and Bremen were abandoned. One by one treaties of reciprocity, now numbering thirty or forty, were negotiated with all the maritime nations, and the policy initiated by the Act of March 3, 1815 was made complete.

Section 34 of the Merchant Marine act directed the President to abrogate as much of the existing commercial treaties and conventions as restrict the United States in the placing of discriminating duties. If such sections of commercial treaties are nullified two sections of the Tariff act of 1913 automatically come into effect whereby a discriminating duty of 10 per cent ad valorem is imposed against goods imported in foreign vessels and a discount of 5 per cent on all the duties imposed by the act is allowed on those articles brought in by American vessels.¹⁹

On September 24, 1920, the President declared that he would not take steps to annul the treaties.²⁰ Regardless of the constitutional questions involved in the refusal of the executive to carry out a section of an act after he had apparently approved the whole, one must applaud his decision. While existing commercial treaties are not perfect, it would be an act of folly to scrap them and begin over again with the discriminations and counter discriminations that they superseded. History shows very plainly that such methods are beneficial only when the other countries do not retaliate, which they always do. It is to be hoped that section 34 is dead beyond resuscitation.

¹⁹ Section IV J, subsections 1 and 7.

²⁰ *Journal of Commerce*, September 25, 1920.

Conclusions and suggestions.

The Merchant Marine act of 1920 misses the central point at issue: the speedy establishment of our shipping on a basis which will enable it, through private ownership and operation, to compete successfully with the fleets of other countries. It is a conglomeration of anachronisms, such as the imposition of discriminating duties; and of theoretical plans out of touch with the facts of the situation, such as the construction loan fund and the exemption from excess profits taxes. It bears marks of having been written hurriedly in a hodge-podge way and of ignoring the imminent depression in shipping, the signs of which were plainly visible at the time. The most constructive feature is the new legislation concerning ship mortgages but this presupposes a plan of action to be worked out with its aid.

How, then, shall our shipping be established on a basis which will enable it through private ownership and operation to compete with the fleets of other countries? By the courageous interpretation of section 5 to mean the sale of the emergency-built and acquired ships at \$30 to \$40 a deadweight ton when new and 5 per cent less for each year of age. This plan seems necessary because (1) shipping has paid normally an average of only 5 per cent a year; (2) the returns in the next few years are likely to be considerably less; (3) operation under the American flag is more expensive than under other registries; (4) our competitors at present have a great advantage in that their investment is much less per ship; and (5) ships now bring only \$30 to \$40 a ton in the market.

(1) In the ten years before the war over fifty representative British cargo steamship companies, which owned each year an average of 1.7 million gross tons, or over twice as much as was registered for foreign trade under our flag in 1914, distributed as dividends on their paid-up capitalization an average of 4.8 per cent. The earnings after depreciation on all the capital tied up in the business were 6.05 per cent and, if 5 per cent of the original cost of the vessels had been set aside for depreciation, the net profits for other allocation would have been reduced to 5.25 per cent. In the eight years 1906 to 1913 over twenty representative British passenger companies, which owned each year an average of 3.9 million gross tons, an amount larger than any country's total merchant fleet with the exception of Great Britain and the United States, distributed only 6.04 per cent on the paid-up capitalization.²¹ While these figures may be somewhat low since rates from 1900 to

²¹ E. S. Gregg, "The Crux of Alien Shipping Problem," *Journal of Political Economy*, June, 1921.

1911 were at the low level of a half century,²² we are faced with a shipping depression similar to that which began in 1900 and lasted to 1911.

(2) Nor will shipping, after the spectacular earnings of the war period, earn more in the near future because there are afloat 15.8 million gross tons of steamers more than the 43.1 million tons in 1913, with an additional 6.2 million tons building, and at the same time the amount of cargo moving is only four fifths as much as before the war. Heretofore, a surplus of a few hundred thousand tons of ships above the current trade requirements has been sufficient to cause a slump lasting from five to eleven years. With a third more tonnage to do four fifths as much work as in 1913, it seems impossible to escape the conclusion that shipping is facing some of the most unremunerative years it has ever known.

(3) In the past the relatively low return on shipping failed to attract much American capital into maritime enterprises—witness the 725,000 gross tons under our flag registered for foreign trade in 1914—partly because the cost of operation under American registry was higher than under other flags. American ships are today handicapped in this respect, though there are still some meticulous souls who profess to doubt the statement. Wages, which comprise nearly one sixth of the total cost (direct operating expenses, excluding port charges and agency fees which vary greatly with different routes, and 16½ per cent fixed charges as specified below) of running an ordinary 7500 deadweight ton freighter costing \$50 a ton are from 15 to 85 per cent higher for American than for foreign ships.²³ Repairs (which have to be estimated roughly and which take up about one eighth of the total) and food (one twelfth) are more expensive for our vessels because the United States is a high cost country in the main except where large scale production and distribution are possible. It is almost impossible to determine exactly the difference in each case because of fluctuating foreign exchanges.

(4) The greatest drawback, however, is in fixed charges. American companies which bought ships at around \$200 a ton find that over half of the costs of operation are fixed charges which have to be met whether the ships run or not, as compared with about 25 per cent for their competitors. In the table below, the cost of running an ordinary 7500 deadweight ton cargo vessel in the trans-Atlantic trade is divided into fixed charges and direct operating expenses. The former includes insurance, 4½ per cent; depreciation, 5 per cent, and interest on the capital tied up, 7 per cent. The latter is made up as follows: wages

²² E. S. Gregg, "Vicissitudes in the Shipping Trade, 1870-1920," *Quarterly Journal of Economics*, August, 1921.

²³ *Nautical Gazette*, May 7, 1921.

\$46,000 per year, food \$22,000, repairs \$30,000, stores \$15,000, and fuel \$110,000. These figures are necessarily estimates, but they have been checked with actual records and are fairly accurate in the aggregate. No attempt has been made to estimate port charges or administrative outlay.

COST OF OPERATING A 7,500 DWT U. S. COAL-BURNING STEAMER
IN THE TRANSATLANTIC TRADE.

Cost per DWT	Total cost	16½% fixed charges	Operating expenses	Total	% fixed charges of total
\$200	\$1,500,000	\$247,500	\$223,000	\$470,500	53
175	1,312,500	216,563	223,000	439,000	49
150	1,112,500	185,625	223,000	408,625	45
125	937,500	154,688	223,000	377,688	41
100	750,000	123,750	223,000	346,750	36
75	562,500	92,813	223,000	315,813	30
50	375,000	61,875	223,000	284,875	22
25	187,500	30,938	223,000	253,938	12

If an American steamer must earn \$200,000 a year for fixed charges as against \$90,000 for its competitors, it can not successfully compete in ordinary times.

The British steamship companies mentioned above paid less than \$35 a deadweight ton for their steamers before the war. While the ships bought in the last few years have increased their average, that average today is certainly not more than \$50 a ton. Individual companies are better off: the Empire Transport Company, Ltd., which has a fleet totalling over 100,000 deadweight tons, carries its vessels on the books at \$11 a ton.²⁴

It does not seem possible that American yards in the near future will be able to build as cheaply as their competitors. Shipbuilding from year to year is of insufficient volume to justify mass production. The argument that the per unit cost in our yards is less than in Britain, because ships are turned out more rapidly on this side of the Atlantic, is bunkum from the shipowner's standpoint. A premium on speed of output has occurred less than half a dozen times in fifty years and only twice in the last twenty years: during the Boer war and the late war.

(5) Tonnage values are at pre-war levels. An ordinary 7,500 to 10,000 deadweight ton cargo vessel could be purchased for approximately \$35 a ton before the war; a 9,250 deadweight ton ship, not yet completed by a British yard, has been sold for £9 4s. a ton, which equals \$35 with sterling converted at \$3.70. Two small vessels have been disposed of at \$42 a ton, ships of small sizes generally bringing a slightly higher price per ton because more costly to build. The passenger ves-

²⁴ *Nauticus*, December 11, 1920.

sel *Cap Polonio*, 19,500 gross tons, practically new and of desirable size and type, a star ship in the South American service of the Hamburg South American Line, brought only £7 14s. a gross ton at a recent sale, or \$28. The table below gives details of characteristic ship sales as reported by *Fairplay* from July 14 to August 11, 1921. Sterling is converted at \$3.70.

SHIP SALES

Ship	Gross	Dead-weight	Year Built	Sold by	Bought by	Price per Deadweight Ton	
						Sterling	Dollars
Marsal (Nor.)	—	2,550	1921	A/S Nordsjoen, Christiania	John Harrison, Ltd.	£11 8s.	42
Mascot (Br.)	1,820	3,100	1921	—	—	11 6	42
Brann (Nor.)	1,830	3,050	1914	Skibs, A/S Braat, Ghent	Russians	10 10	39
Friedrichsruh (Br.)	8,332	7,480	1905	Shipping Controller	—	9 14	37
(Building)	—	9,250	1921	Furness S. B. Co.	Sota y Aznar, Bilbao	9 4	34
Mapelmore (Br.)	4,330	7,350	1916	Johnson Line, Ltd.	—	8 4	30
Neath Abbey (Br.)	1,945	3,150	1907	Melrose Abbey Shipping Co.	Russians	7 18	29
Tintern Abbey (Br.)	1,809	3,150	1909	Melrose Abbey Shipping Co.	Russians	7 18	29
¹ Cap Polonio (Br.) ²	19,500	9,500	1914	Shipping Controller	Hamburg S. American S. Co.	7 14 ²	28 ²
Betzdorf (Br.)	2,135	4,000	1920	Shipping Controller	—	7 10	28
Weilburg (Br.)	2,135	4,000	1920	Shipping Controller	—	7 10	28
¹ Orotava (Br.)	2,064	3,140	1921	Shipping Controller	—	6 16	25
¹ Sesostris (Br.)	7,228	11,700	1915	Shipping Controller	Dutch	6 12	24
¹ Danzig (Br.)	4,080	5,600	1920	Shipping Controller	—	6 12	24
¹ Amasis (Br.)	7,224	11,850	1914	Shipping Controller	Sota y Aznar Bilbao	5 10	20
¹ Schwarzenfels (Br.)	8,325	12,300	1915	Shipping Controller	Nitrate Producers S. S. Co.	5 2	19
¹ Bremen (Br.) ²	11,540	10,200	1896	Shipping Controller	—	4 6 ²	16 ²
Akenside (Br.)	2,425	4,300	1904	Quayside Shipping Co.	Greeks	4 2	15
¹ Schwaben (Br.)	5,098	8,000	1906	Shipping Controller	W. R. Smith & Sons, Cardiff	3 12	13
Huntscastle (Br.)	5,528	6,900	1902	—	—	2 4	8
General Dego-utte (Belg.)	3,534	5,750	1899	Soc. Maritime Bdge., Ghent	Greeks	2 4	8

¹ Ex-German.² Passenger vessel, price per gross ton.

If the government owned tonnage is sold for \$30 to \$40 a ton when new, the disadvantage in the costs of operation will largely be overcome and the burden of supporting through taxation the continuing losses of the Shipping Board will be obviated. The ships will eventually have to be disposed of at around this figure after years of cumulative deficits. It is wiser to stop the drain upon the Treasury as soon as possible. Furthermore, instead of giving aid to particular companies, as is the case with mail subsidies, partial exemption from taxes, etc., this method would come nearer distributing the assistance equally. Every fair minded observer admits that a large part of the four billion dollars spent by the government for ships should be written off as war cost. As the President said in his recent message before Congress, "In the emergency of war we have constructed a tonnage equalling our largest expectations. Its war cost must be discounted to the actual values of peace and the large difference charged to war emergency." The "actual values of peace" are around \$35 a deadweight ton. If our government owned ships are disposed of at this figure, we may continue to keep what ships we need. If a less direct method is tried, slow and expensive failure seems inevitable.

However, upon analysis it is evident that all of our war-built ships should not, in the interest of economy and of a well-rounded merchant fleet, be maintained. The principal types may be divided as follows:²⁵

SHIPPING BOARD TONNAGE—BY TYPES.

	Millions of gross tons	Percentage of total
Cargo, 7,000 to 10,000 DWT...	2.7	38
Cargo, 10,000 DWT and over..	1.6	22
Cargo, under 5,000 DWT.....	1.1	16
Cargo, 5,000 to 7,000 DWT....	0.6	8
Passenger	0.6	8
Tankers	0.6	8
Total	7.2	100

In the first place, there are too many steamers under 5,000 deadweight tons. In May, nearly half of the number of vessels tied up were of this size.²⁶ These vessels are better adapted for use in the restricted waters of the Baltic, North Sea, and Mediterranean than in American waters with the exception of a few dozen in Gulf and Carib-

²⁵ The totals are approximate. Percentages given in the *Shipping Board Register of Ships*, May 1, 1921, were applied to data referred to in note 3. Passenger vessels under 10,000 gross tons were included as cargo. The wooden vessels are taken as sold, according to the recent announcement.

²⁶ *Journal of Commerce*, May 31, 1921.

bean services. And they are not especially fitted for European coastal service, because they draw too much water. They were built broad-waisted and of deep draft to secure a maximum cargo capacity on the short length that could be brought from the Lakes to the Atlantic. If, after Americans have purchased the few that they need, foreigners will not buy all of them, those unsold should be scrapped. It has been costing the Board, on an average, \$757 a month to care for an idle ship, and there are over 300 small ones idle!

In the second place, there are too many cargo carriers between 7,000 and 10,000 tons. Vessels of this size and type are fitted mainly for tramp service. After many trying and expensive experiences, we may eventually succeed in becoming operators of regular cargo line services, but we should face the fact that our national economy unfits us for tramp ship operators. Consequently, many of the large tramps should be disposed of on the most advantageous terms which general condition and sound business practice will permit.

The other classes mentioned above seem more adapted to our needs. At present very few of the medium sized ships are tied up. Tankers we need in increasing numbers, as we shall have to depend more on overseas sources for our oil supplies. There are many intangible and collateral benefits derived from the maintenance of passenger services, which we can not well forego.

But the discussion so far has not taken account of the fact that approximately one fourth of the world's tonnage is unemployed, and that scarcely a ship in service is making a profit, with the exception of motorships and liners in established services protected by conference agreements. What should be done with the Board's tonnage while the depression lasts is a different question from what should be done eventually. It is obviously true that only a few of the 1,450 government owned vessels could be sold today at around \$30 a ton. What should be done with the rest while the depression lasts?

The answer is efficient operation which can at least minimize, if not eliminate the large losses. Where is the privately owned steamship company that can make a profit in dull times when its crews are fed on grape fruit and heart of lettuce salad with mayonnaise dressing? Or whose ships are left in obscure ports for months without orders? Or whose foreign agents, acting also for competitors, favor the latter? Or whose directors believe that low-priced, ignorant employees are the most efficient? The Shipping Board is the largest enterprise of its kind in the world; even the Peninsular and Oriental Steamship Company, the largest private combination, owns or controls only one fourth the total tonnage of our government fleet, and its organization has been built up through generations. The best talent of the country, at what-

ever price, would be a good investment for the Board. But second to efficient administration and operation is the problem of interesting and training private operators who must be relied on to take over the ships from the government. Many citizens who are unfamiliar with ships must be attracted to their operation if the seven million tons are to be transferred to private ownership. But those who are unacquainted with ships are not efficient operators. The solution of this dilemma is not clear. In either case, it calls to mind an old-fashioned snipe hunt with the taxpayer holding the bag out in the illimitable darkness.

The present operating agreements are on the basis of a fee for every ship handled, plus a small percentage of the gross receipts, a method which does not give incentive to efficiency. There is a premium on getting cargo, but not on lowering expenses. If new operators are not paid well enough they will not become interested in ships, and if they are paid regardless of efficiency the government suffers doubly.

The ideal solution would be a bare boat charter, with all the burdens of operation borne by the operator, but this is impractical today because a rate of even five cents a deadweight ton a month will not allow a profit commensurate with the risks taken. If the present plans of letting out the ships on this basis are carried out, we may look for the American flag to disappear from nearly every important trade route. It is doubtful if 100 ships could be chartered today at five cents a ton a month. The use of the proposed bare boat charter plan would be equivalent to pulling in our ships from the routes where they have begun to establish themselves at the very time when our competitors are making every effort to get control. To keep our ships going in most of the present trades will cost money even with the most efficient operation, but not so much as if we abandoned everything built up in the last three years. Having committed ourselves so far, it will be cheaper to carry on than to pull in all our lines.

These suggestions are offered for what they are worth. There is much opinion in them, which some may think is not justified either by the facts or by common sense. But if intelligent discussion is provoked, something will have been accomplished. Economists are strangely silent on this question which approaches that of naval disarmament in importance for the taxpayer.

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